DEPARTMENT OF FINANCE AND TOURISM
Economics, Statistics & Fiscal Analysis Division
P.O. Box 2000, Charlottetown
Prince Edward Island
C1A 7N8

No. 27
September
1985

ECONOMIC TRENDS

1985 MID YEAR REVIEW

1. Introduction

This issue of Economic Trends provides a brief review of the emerging economic situation on Prince Edward Island based on information for the first half of 1985.

At the national level the economic recovery appears to be firmly underway following the somewhat erratic pace during the early part of 1984. By the end of 1984 it became clear that economic growth that year was much stronger than had earlier been thought, with an annual increase in Gross National Product of 5.0 per cent, in constant dollars. This followed growth of 3.3 per cent in 1983 and the decline of 4.4 per cent in 1982. The unemployment rate in Canada in 1984 was 11.3 per cent, compared to 11.9 per cent in 1983. For Prince Edward Island the rate of unemployment was 12.8 per cent in 1984 and 12.2 per cent in 1983. The major factor behind the 1984 Canadian recovery lay in the export trade with the United States. Total exports in Constant Dollars increased by 19.5 per cent in 1984, (the current dollar value of merchandise exports increased by 23.4 per cent). Continuing high interest rates have held back the domestic recovery although a moderate downward adjustment in rates is occurring. The leading component of the domestic recovery in spending in Canada has been new motor vehicle purchases, with new passenger car sales increasing by 15.2 per cent in 1984, and sales have continued to increase briskly in the first half of 1985. The pattern has been different on Prince Edward Island where the number of new motor vehicles sold for January - April 1985 was 3.4 per cent below the level of January - April 1984. This compares to an 18.7 per cent increase in new motor vehicle sales on Prince Edward Island in 1984. The value of total Retail Trade on Prince Edward Island increased by 4.1 per cent January - May 1985 compared to January - May 1984, and this is relative to 10.7 per cent for 1984, and 10.2 per cent for Canada in the first five months of 1985. Thus, the data on the recovery in domestic spending points to steady gains nationally compared to a loss of momentum in spending provincially.

.../2

2. The Prince Edward Island Economy to Mid 1985

(a) Population and Labour Force

Notwithstanding the apparent weakness in gains to consumer spending in the Province, employment and labour force gains have been very strong. The most recent estimate of the size of the province's population is 127,000 (at April) which compares to 125,000 April 1984 and this points to significant net in-migration and bodes well for future economic growth. The population 15 years and over reached 95,000 in June 1985, or 3,000 above the year previously. Total employed persons measured 57,000 in June. For the first six months of 1985 total employment per month was 3,500 greater than in the first half of 1984, an increase in excess of 7 per cent. These gains are unusually large by historical standards. The unemployment rate, on a seasonally adjusted basis, peaked at 14.3 per cent in March, falling to 12.2 per cent in July. This compares to an average annual rate of unemployment of 12.8 per cent for 1984.

Diagram 1

We should note that Statistics Canada modified their Labour Force Survey collection techniques during the winter months which may distort improvement of employment and the labour force.

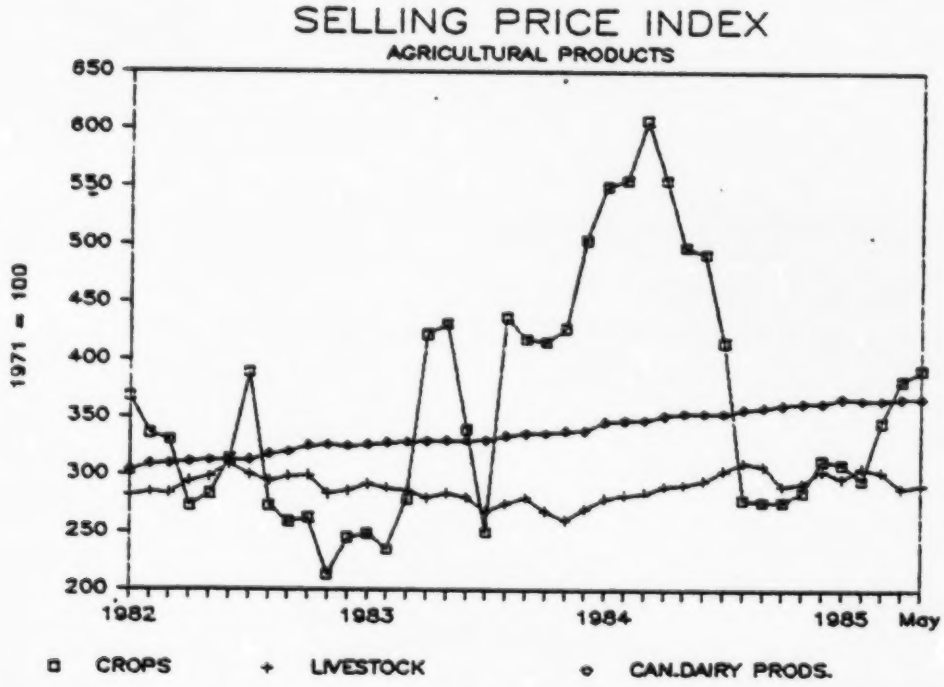
.../3

(b) Farming and Fishing

Farm incomes in the first half of 1985 have deteriorated in the face of reduced farm cash receipts, particularly in view of the declining value of potato sales, which form 35-40 per cent of the value of farm production on Prince Edward Island. The 1984 potato harvest was an all time record size at 19 million cwt, but in view of depressed prices its value was significantly below that of 1983. Thus the value of potato sales January-May 1985 was 24.6 per cent below that of January-May 1984. The Statistics Canada estimate of the acreage of potatoes planted in 1985 is 74,000 acres, the largest in the Island's history.

Total farm cash receipts January-May 1985 were $87.4 million, compared to $101.5 million for those months in 1984. Prices of agricultural products for livestock and crops for Prince Edward Island and dairy products for Canada can be compared in Diagram 2.

Diagram 2



Statistics on fish landings January-June 1985 indicate a significant improvement in value over the first half of 1984, although the volume was down by 5.3 per cent largely as a result of a reduced groundfish harvest. The value of lobster landings

.../4

formed 88.6 per cent of all landings and it showed an increase of 52.8 per cent over the first half of 1984, almost totally the result of price improvements.

(c) Incomes and Expenditures

The average annual rate of increase in consumer prices for Charlottetown-Summerside in the first half of 1985 was 3.8 per cent. Ths can be compared to 4.3 per cent for the year 1984. The rate has been declining since 1981 when it was 13.5 per cent and it now appears to have levelled off. By comparison, average weekly wages and salaries for the "Industrial Aggregate" for Prince Edward Island is estimated to have risen on average 5.4 per cent during the first four months of 1985. Statistics Canada also shows the total value of wages and salaries for Prince Edward Island increasing by only 3.3 per cent in the first five months of 1985. Taking this result together with reduced farm incomes suggests that earned personal income is increasing very slowly on Prince Edward Island in the first half of 1985, despite the improved employment picture. The Conference Board projects personal income growth on Prince Edward Island of 4.8 per cent for 1985 although even this modest increase is based on a somewhat stronger projected growth picture for wages and salaries than has occurred to date.

Total Unemployment Insurance Benefits paid amount to $49.7 million in the first four months of 1985. This is up by 12.9 per cent over the same period in 1984. By comparison U.I. Benefits increased by 20.8 per cent in 1984.

Retail sales valued $200.8 milion in the first five months of 1985, which represents an increase of 4.2 per cent relative to a year ago. In 1984 total retail trade expanded by 10.4 per cent. The value of Retail activity associated with Motor Vehicle Dealers represented 19.6 per cent of all Retail Trade and increased by 16.3 per cent in 1984. By comparison, in the first five months of 1985 its value declined by 1.7 per cent, according to Statistics Canada. As noted earlier the number of motor vehicles sold has declined by 3.4 per cent in the first four months of 1985. For Canada, the value of retailing in Motor Vehicle Dealerships January-May 1985 was up by 21.3 per cent over this period in 1984. Undoubtedly, the major factor behind these disappointing results for Prince Edward Island lies in the slow income growth experienced in 1985, following relatively slow growth since mid 1984.

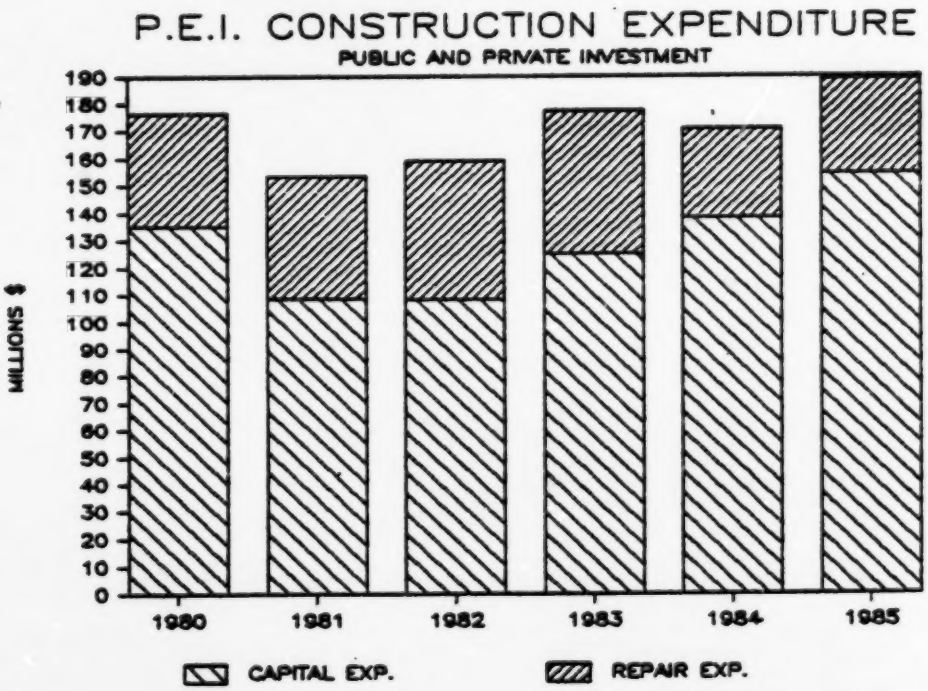
Information on tourism activity in 1985 indicates increased visitation during the first half of the season. Total non-resident parties visiting Prince Edward Island May 15-June 30 numbered 38,242, an increase of 4.8 per cent over 1984. This suggests that commercial service activity is probably doing better than retailing alone.

(d) Manufacturing and Construction

There is only limited information on Manufacturing activity for Prince Edward Island. Its largest component is Food and Beverages, commonly referred to as Food Processing. The total value of shipments of manufactured products increased by 6.0 per cent in the first five months of 1985. The number of employees in the industry rose to 2,900 by April and this was 400 more than in April 1984. These statistics suggest modest gains in an industry which has suffered significant setbacks in recent years.

Construction activity appears on an upswing largely in view of the Atlantic Veterinary College, the Charlottetown Airport Terminal and the Meat Plant. The total value of construction intentions in 1985 is $188.8 million, compared to $170.4 million in 1984, an increase of 10.8 per cent. Data on residential construction indicates a modest level of activity with 278 housing starts in the first half of the year. The total number of residential building permits increased by 3.5 per cent January to May 1985 compared to January to May 1984. Their value was up by 14 per cent. Thus, there are a number of positive indicators for construction in 1985.

Diagram 3



3. Summary and Conclusions

The present period should be put in the perspective of economic events over the past few years, and by these standards the economic situation is far more favourable than the statistics might imply at first glance. The most critical aspect of the national economy since the late 70's was the impact of escalating energy prices, and their effect on the international financial situation. The consequently high interest rates and the economic repercussions of these developments have had major impacts on Prince Edward Island. The adjustment to world prices is now behind us and there are indications of not only stability in oil and gas prices, but the hope of declines. The financial situation, while still tight, does appear to be improving as confidence in a long term shift to a low inflationary future builds.

The major population movement to the West has now reversed and the unduly speculative nature of the oil boom has disappeared. Locally, spending patterns have altered largely as a result of adaptation to the low inflationary world, and as the car buying spree inevitably finished. The province has been somewhat ahead of the nation in this regard. Manufacturing activity is improving and employment gains have been impressive. Tourism is making solid gains following the recession, and fishing has rebounded. Construction activity is improving. Thus, while the economic gains on Prince Edward Island may be slow, they are generally widespread and are no longer simply a rebound from the depressed situation that occurred.